Preparing for year end

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Contents

- What are we going to cover?

- The main thrust will be on small companies that are audit exempt and that can prepare accounts under the special provisions of the Companies Act 2006;

- Reviewing the accounts and accounting system;

- Preparing for statutory accounts filing and other Companies House issues;

Contents

- Tax- reviewing possible risk areas;

- Special situations:
- Charity accounting and trustees’ responsibilities;

- Looking ahead:
- How can we improve the systems and add value to the business?
- Tax planning .

Reviewing the accounts and the accounting system

Accounting packages

- Obviously lots of accounting packages on the market;
- This webinar will not be reviewing individual packages;
- Balance of cost and functionality;
- Some are basic and work quite well;
- Some are more sophisticated and produce more reports and offer extra filing facilities (eg Companies House and HMRC).

Reviewing accounting records systems

- The basic question is: Are these fit for purpose?

- For the very smallest company, the absolute minimum accounting records would be:
- Bank statements, cheque books and paying-in books;
- Original invoices for all purchases and copy invoices for sales;
- PAYE records, even if the only employees are directors;
- VAT records if you are registered, including reconciliations of the amounts paid;
- Stock or uncompleted work at year end;
- A schedule of fixed assets.

Statutory accounts

- A balance sheet, which shows the value of everything the company owns and is owed on the last day of the financial year;
- A profit and loss account, which shows the company's sales, running costs and the profit or loss it has made over the financial year;
- Notes to the accounts;
- A director's report;
- An auditor's report (if needed);
- A director must sign the balance sheet and their name must be printed on it.

Year end reports

Accounting packages have automated much of this over the last 20 years, but the basic package should have:

Trial Balance;

Profit & Loss;

Balance Sheet;

Aged Debtors & Creditors;

Nominal Ledger Transactions.

Accruals and provisioning

- Unless the business is a small unincorporated business that is on the 2013 cash basis, then accruals accounting;
- Provisions should be reviewed on an annual basis and include:
- Bad and doubtful debts;
- CT;
- Professional fees;
- PAYE.

Sales and receivables

- Review the SDB – is it accurate?
- Are sales posted on a daily basis?
- Review a sample of sales invoices/till roll;
- Is the VAT correctly posted?
- List all the orders received but not yet processed/delivered;
- Is there an order book?

Sales and receivables - 2

- Debtors listing;
- Individual debtors’ accounts – sample review;
- Review the control account;
- Review the bad and doubtful debts account and the provision from the previous year – does it need altering?

Purchases and Creditors

- Year end check-list:

- Purchase day Book;
- Purchase invoices;
- VAT correctly analysed?
- Cheque book stubs;
- Year end accounts payable reports;
- Year end reconciliation – accounts payable sub-ledger to Nominal Ledger Accounts Payable control account;
- Petty cash account review – fit for purpose?

Cash and bank balances

- Year end bank reconciliations;
- Bank statements for the entire period;
- Cash book and petty cash book;
- Directors' control over cash and bank security – fit for purpose?

Fixed assets and depreciation

- Fixed assets include buildings (if you own them), equipment, vehicles, and fixtures and fittings;
- Is there a fixed assets register? -hopefully yes, otherwise one will have to be constructed for the future;
- Break it down into different types of asset: a purchase date, purchase price, description and location for each item.
- Note any items that have been purchased, sold or scrapped during the year.

Fixed assets and depreciation

- Review the depreciation policy;
- Although the driver has to be HMRC's capital allowances
- Is there an argument to align the two systems?
- Make sure the Net Book Values are correctly stated.

The annual stock take

- Range of responses depending on the size of the business and the value of the stock;
- For bigger clients, set out stocktaking procedures in writing;
- Can you lay out the stock in a logical way, so that all stock of the same type is in one place?
- Label the stock and print lists of the different types of stock on hand.

The annual stock take

- Ensure no stock comes in on the day of the stocktake (usually a weekend day);
- If this is unavoidable, stock movements must be tightly monitored and recorded;
- Unless you have good stock records, you will probably need to carry out the stocktake close to the last day of the financial year;

The stock take

- Once the stock has been counted, it needs to be valued:
- Lower of the cost or net realisable value;
- Make a note of any old, obsolete or damaged goods;
- Make a note of unfinished pieces of work (WIP) and record what has to be done, giving it a value;
- Client estimates of stock acceptable?.

Work in progress

- Not relevant for all clients;
- Review any long-term contracts;
- Dr BS current assets with the amount recoverable at year - end;
- Cr P&L with turnover(value of work completed at year-end) less costs incurred in the year.

Audit issues – a quick review

Do I need an audit?

- Most small private limited companies don’t need an audit of their annual accounts - unless the company’s articles of association say it must or enough shareholders ask for one.

- **If your company financial year ends on or before 30 September 2012**
- Your company may qualify for an audit exemption if your company meets **both** the following:
- has an annual turnover of no more than £6.5 million
- has assets worth no more than £3.26 million

Do I need an audit?

- **If your company financial year ends on or after 1 October 2012**
- Your company may qualify for an audit exemption if your company meets **2** of the following:
- Has an annual turnover of no more than £6.5 million;
- Has assets worth no more than £3.26 million;
- Has 50 or fewer employees on average.

However……

- **Some companies must have an audit even if they meet the rules for not having one.**
- A public company (unless it's dormant);
- A subsidiary company (unless it qualifies for an exception;
- An authorised insurance company or carrying out insurance market activity;
- Involved in banking or issuing e-money
- A Markets in Financial Instruments Directive (MiFID) investment firm or an Undertakings for Collective Investment in Transferable Securities (UCITS) management company
- A corporate body and its shares have been traded on a regulated market in a European state.

If shareholders ask for an audit

- Even if a company is usually exempt from an audit, you must get your accounts audited if shareholders who own at least 10% of shares (by number or value) ask you to;

- This can be an individual shareholder or a group of shareholders;

- They must make the request in writing and send it to the company's registered office address;

- The request must arrive at least 1 month before the end of the financial year that the audit is being asked for.

Tax issues at year end – areas of risk

Employees – payroll and expenses

- Payroll is very topical with RTI – possible exposure to penalties?
- Need to review its operation and to check that the PAYE system is running OK – “on or before”;
- Benefits being captured and recorded properly – do they need putting through the payroll?
- P11D reporting OK – dispensation in place and current?
- Possible tax exposure?

Dividends

- Have the correct procedures been followed?
- Do the directors understand the difference between a proper dividend and “earnings” - that may be subject to IT and NICs?
- Profits being properly monitored – management accounts?
- Dividend vouchers being prepared?
- Dividends properly voted and noted?

VAT

- Review the VAT working papers;
- Returns filed on time?
- Possible default surcharge exposure?
- VAT control account reviewed?
- Year end creditor/debtor fairly stated?

VAT risk areas

- VAT accounting captured properly?
- VAT correctly applied – sample of invoices;
- Import and export issues;
- Customs duty on imports? – if yes write it off to the P&L or the balance sheet;
- Partial exemption review where appropriate.

Corporation tax

- Corporation tax account should be reviewed;
- Generally quite simple for smaller companies;
- Last year’s provision v actual (per the CT600)?
- This year’s provision – any changes in CT rate?
- Correct CT rate – not all small companies can take the SPR.

Tax year end issues

- CT 600 – due 12m from the end of the accounting period;
- Diary issues – when do you do the CT600?
- Filing history problems?
- Loans – S455, especially from FA 2013.
- New bed and breakfasting rules;
- Is there a need to provide for 25% tax on a loan to a shareholder?

Companies House issues

Companies House issues

- Getting ready for filing;
- Many accounts packages have automatic filing add-ons –but this costs extra;
- HMRC's CT600 also has a dual-filing facility;
- Or download the iXBRL form direct from Companies House;
- So, lots of choice.

Companies House filing issues

- Check the filing history of the company;
- Statutory accounts filed on time – copies on file?
- Especially important for new clients;
- Annual returns filed on time – copies on file?
- Run a check on the Companies House website;

Companies House and directors' issues

- Annual report – who is going to prepare this?
- Who is going to sign off the accounts?
- Any changes of directors?
- Have these been notified to Companies House?
- Appointment or termination of the company secretary?
- Notified to Companies House?

Special charity issues

Do my charity's accounts need to be reviewed by an independent third party?

- By law, you must get your charity's accounts externally scrutinised if either:

- Its annual gross income is more than £25,000 in the accounting year; or

- Its governing document requires this;

- External scrutiny may involve an **audit** or an **independent examination (IE)**. It reassures donors and beneficiaries that your charity is maintaining proper financial records and that its accounts reflect those records.

Does a charitable company have to be audited under both the Companies Act and Charities Act provisions?

- The basic assumption is that where the Companies Act requires an audit, then the accounts are simply audited under the Companies Act.

- The Charities Act provisions in relation to an audit and independent examination only apply to charitable companies where accounts are not required to be audited under the Companies Act.

- See more at: http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/guidance-on-audits-for-company-charities/#1

Independent examination under the Charities Act – the conditions

- It is a small company that qualifies for audit exemption under the Companies Act;
- The trustees as the company directors make the necessary audit exemption statement on the balance sheet;
- The charitable company is eligible and opts for independent examination under the Charities Act.
- See more at: http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/guidance-on-audits-for-company-charities/#1

Can a charitable company be independently examined under the Charities Act?

- To be eligible for independent examination the charity's gross income in the relevant financial year must not exceed £500,000; or

- Where the charity's gross income exceeds £250,000 (for financial years ending on or after 1 April 2009) the aggregate value of its assets must not exceed £3.26m (for financial years ending on or after 1 April 2009);

- See more at: http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/guidance-on-audits-for-company-charities/#1

Which documents do I need to send to the Charities Commission?

- This depends on the charity's income in each financial period;

- If your charity's income is over £10,000, by law you must complete an **annual return** form every year.

- If your charity is registered but its income is under £10,000, you are required to tell the Commission the charity's income and expenditure and about any changes to your charity's details, eg contact details or trustees. You can use the annual return form to update your charity's details.

Which documents do I need to send to the Charities Commission?

- If your charity's income is above £25,000 in that year you must provide a copy of your charity's accounts as a PDF file when you complete your annual return;

- Your accounts must include:
- A formal statement of accounts;
- Your Trustees' Annual Report;
- The required level of external verification (eg an audit or independent examination);

Which documents do I need to send to the Charities Commission?

- You must submit your annual return/accounts (where applicable) no later than 10 months after your charity's financial year ends;

- See more at: http://www.charitycommission.gov.uk/frequently-asked-questions/faqs-about-annual-returns-and-accounts/what-does-my-charity-have-to-send-to-the-commission

The charity annual return – planning ahead

- Have there been any changes to the trustees?

- Arranging handover training if someone takes over responsibility for completing the annual return;

- Arranging a trustee meeting to agree the accounts and trustees' annual report within two months of the financial period ending.

Trustees' responsibilities

- Monitoring activities;
- Are annual budgets of income and expenditure prepared and approved by the trustees?
- Is performance measured against budgets at regular intervals?
- What are the explanations for any variances?

Trustees' responsibilities

- Are the trustees provided with regular information about the financial performance of the charity?
- Do the trustees discuss the finances at each meeting?
- Is there a finance sub-committee?
- If yes, what are their terms of reference and who makes the decisions?

Trustees' responsibilities

- Are the accounting records robust?
- Are adequate financial records kept to record transactions?
- Control checks over:
- Income from collections and fundraising;
- Gift aid donations;
- Legacies;

Trustees' responsibilities

- Control checks over:
- Income from collections and fundraising;
- Gift aid donations;
- Legacies;
- Trading income;

Trustees' responsibilities

- Banking and custody procedure;
- Checks on income records – are regular reconciliations performed?
- Controls and authorisation over expenditure;
- Cheque payments/ debit and credit card payments;
- Cash payments.

Trustees' responsibilities

- Wages, salaries and volunteer expenses;
- Controls over fixed assets;
- Is there adequate trustee training?
- The Charities Commission website has lots of information about trustees' responsibilities.

Looking forward

A bit of a way off yet, but….

- New Financial Reporting Standard for Smaller Entities (FRSSE);

- Effective January 2015;

Looking forward

- Once the accounts are finished, the annual accounts meeting with the client should be used to discuss how business practices can be improved.
- Can you improve the book-keeping system?
- Does it handle VAT quickly and easily, including VAT Returns?
- Is there a better way to record income and expenditure?

Looking forward

- Can you improve your credit control?
  - What payment targets should you aim for?
  - How can you cut exposure to bad debts?
- Should you introduce or upgrade accounting software?
- Can you find ways of providing more timely and useful management information during the accounting year?

Protecting your IP

- Do you know how IP can be used in your business?
- What intellectual assets does the business own and how can the client protect or exploit them?

- Free online health-check at
- www.ipo.gov.uk/iphealthcheck

- Also good PDF on Companies House website: Intellectual property explained:
- http://www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml

Tax planning

- Tax efficient profit extraction;
- Low salary and dividends?
- Rent?
- Employing family members;
- Cars and vans?
- Other benefits including using salary sacrifice.